

VEBA UPDATE

Montana VEBA Plan Coming Soon!

State of
Montana
Employee
Benefits
Bureau

What *IS* the Montana VEBA PLAN?

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VEBA stands for, Voluntary Employee Beneficiary Association. It is a tax-exempt trust authorized by the IRS. The rising cost of health care continues to challenge both employers and employees in determining how to acquire funds to pay for health care coverage. While this is an issue during the period an employee is actively employed, the issue is magnified when employees retired health care costs increase as a function of greater utilization in retiree populations. A VEBA plan can offer relief from those costs.

During the 2001 Legislature, legislation was passed to allow the State of Montana to establish a trust that would allow public en-

tity employees in Montana to acquire funds to use for qualified health care expenditures. The plan will allow the employer and the employee to make tax-free contributions to the account. The account will then accumulate earnings tax-free. Then, when an employee either separates from service or retires, the funds may then be used to pay for qualified health care expenses ~ all tax-free! That allows employees to stretch those dollars

through tax savings, to pay for post-employment health care.



Special points of interest:

- *What IS the new Montana VEBA plan?*
- *Who can participate?*
- *How will the VEBA work?*
- *When can I enroll?*
- *How do I learn more?*

**Call with
your
questions!!**

Who can participate?

A unique feature of the VEBA benefit is that it is open to public entity employees within the State of Montana. The Department of Administration calculates that approximately 39,700 employees of the State of Montana, incorporated cities and towns, counties, school districts, MT University System employees, boards, commissions or any other political subdivision of the state are po-

tentially eligible to join the VEBA Plan.

Groups of employees become members of the plan by voting to join the VEBA. Elections may be called by a percentage of employees or by the employer. Once groups indicate their desire to join the VEBA, the employer contracts with the Dept. of Administration to participate.

WHO TO CONTACT

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How will the VEBA work?

When employees become members of the VEBA plan, their employer can make pre-tax contributions to individual accounts established for members and held in trust. There are a number of funding options available to the employer. The major form of contribution for most employees will be from cash-out of excess sick leave.

The assets in the plan will be invested similar to deferred compensation, and earnings are tax-free. Once the account is established, a member may begin to draw upon the balance in their accounts to pay for qualified health care expenditures for themselves, their spouse or eligible dependents.

Employer contributions to the plan will come primarily from sick leave conversions. Currently,



state law allows for conversion of sick leave balances to cash payouts upon retirement or termination. The payout is calculated using 25% of the sick leave balance and based on the rate of pay in effect at termination. Under

the VEBA plan, State statute would allow conversion of designated sick leave hours in excess of 240 for active employees also at the rate of 25% of the sick leave balance based on the rate of pay in effect. In addition, salary amounts, and other means agreed upon between the employer and employees, may be designated as contributions, subject to approval as part of the final plan by the IRS. More details to follow!

When can I enroll? And who is my contact?

The target date for the state to make the Montana VEBA plan available is January 1, 2003. A key portion of implementation of the Montana VEBA plan is securing a favorable Letter of Determination from the IRS. This will designate the plan as "tax-exempt." The actual start date all depends upon the timeframe under which the IRS reviews the state plan and issues a favorable letter so that we can proceed.

To learn more or to ask questions, you may con-

tact Melanie Denning at the Dept. of Admin-Employee Benefits Bureau. Contact information is listed on the front of the newsletter.



"Once a favorable letter of determination is received from the IRS, and the administrative entities are in place, the Montana VEBA plan will be available!"

VEBA Education Opportunities

Our staff along with our VEBA plan consultant just finished conducting Education sessions about the Montana VEBA in various locations around the state. Since the set-up and administration of groups in VEBA will involve the employer, we focused on their involvement and education initially. Meetings were open to employers, benefits staff and personnel contacts from State, local city and county K-12 and higher education units. Further Employer enrollment "how to" sessions, as well as meetings for employees will be held later in the year. We have asked employers to help us provide information to employees as well!

Basic VEBA information was discussed as well as details of how the Montana VEBA is expected to operate. Many good questions were generated. As the State of Montana continues to finalize the plan rules for the Montana VEBA, consideration to the

items discussed in the meetings will be given.

Thank you to those of you that were able to attend the meetings. Summer is a difficult time to schedule meetings. If you were not able to attend, we have copies of the material that was handed out at the sessions. Please call or email Melanie (contact information on the front page of this newsletter) to obtain a copy of the materials. And, be sure to check out our website at:

<http://www.discoveringmontana.com/doa/spd/css/benefits/veba.asp>

for updates and future developments!

